

Part III. Administrative, Procedural, and Miscellaneous

2004 Limitations Adjusted As Provided in Section 415(d), etc.¹

Notice 2003-73

Section 415 of the Internal Revenue Code (the Code) provides for dollar limitations on benefits and contributions under qualified retirement plans. Section 415 also requires that the Commissioner annually adjust these limits for cost-of-living increases. Other limitations applicable to deferred compensation plans are also affected by these adjustments. Many of the limitations will change for 2004. For most of the limitations, the increase in the cost-of-living index met the statutory thresholds that trigger their adjustment. Furthermore, several of these limitations, set by the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA), are scheduled to increase at the beginning of 2004. For example, under EGTRRA, the limitation under § 402(g)(1) of the Code on the exclusion for elective deferrals described in § 402(g)(3) is increased from \$12,000 to \$13,000. This limitation affects elective deferrals to § 401(k) plans and to the Federal Government's Thrift Savings Plan, among other plans.

Cost-of-Living limits for 2004

Effective January 1, 2004, the limitation on the annual benefit under a defined benefit plan under § 415(b)(1)(A) is increased from \$160,000 to \$165,000. For participants who separated from service before January 1, 2004, the limitation for defined benefit plans under § 415(b)(1)(B) is computed by multiplying the participant's compensation limitation, as adjusted through 2003, by 1.0220.

The limitation for defined contribution plans under § 415(c)(1)(A) is increased from \$40,000 to \$41,000.

The Code provides that various other dollar amounts are to be adjusted at the same time and in the same manner as the

dollar limitation of § 415(b)(1)(A). These dollar amounts and the adjusted amounts are as follows:

The annual compensation limit under §§ 401(a)(17), 404(l), 408(k)(3)(C), and 408(k)(6)(D)(ii) is increased from \$200,000 to \$205,000.

The dollar limitation under § 416(i)(1)(A)(i) concerning the definition of key employee in a top-heavy plan remains unchanged at \$130,000.

The dollar amount under § 409(o)(1)(C)(ii) for determining the maximum account balance in an employee stock ownership plan subject to a 5-year distribution period is increased from \$810,000 to \$830,000, while the dollar amount used to determine the lengthening of the 5-year distribution period is increased from \$160,000 to \$165,000.

The limitation used in the definition of highly compensated employee under § 414(q)(1)(B) remains unchanged at \$90,000.

The annual compensation limitation under § 401(a)(17) for eligible participants in certain governmental plans that, under the plan as in effect on July 1, 1993, allowed cost-of-living adjustments to the compensation limitation under the plan under § 401(a)(17) to be taken into account, is increased from \$300,000 to \$305,000.

The compensation amount under § 408(k)(2)(C) regarding simplified employee pensions (SEPs) remains unchanged at \$450.

The compensation amounts under § 1.61-21(f)(5)(i) of the Income Tax Regulations concerning the definition of "control employee" for fringe benefit valuation purposes remains unchanged at \$80,000. The compensation amount under § 1.61-21(f)(5)(iii) is increased from \$160,000 to \$165,000.

Limitations specified by statute

The Code, as amended by EGTRRA, specifies the applicable dollar amount for

a particular year for certain limitations. These applicable dollar amounts are as follows:

The limitation under § 402(g)(1) on the exclusion for elective deferrals described in § 402(g)(3) is increased from \$12,000 to \$13,000.

The limitation under § 408(p)(2)(E) regarding SIMPLE retirement accounts is increased from \$8,000 to \$9,000.

The limitation on deferrals under § 457(e)(15) concerning deferred compensation plans of state and local governments and tax-exempt organizations is increased from \$12,000 to \$13,000.

The dollar limitation under § 414(v)(2)(B)(i) for catch-up contributions to an applicable employer plan other than a plan described in § 401(k)(11) or 408(p) for individuals aged 50 or over is increased from \$2,000 to \$3,000. The dollar limitation under § 414(v)(2)(B)(ii) for catch-up contributions to an applicable employer plan described in § 401(k)(11) or 408(p) for individuals aged 50 or over is increased from \$1,000 to \$1,500.

Administrators of defined benefit or defined contribution plans that have received favorable determination letters should not request new determination letters solely because of yearly amendments to adjust maximum limitations in the plans.

Drafting Information

The principal author of this notice is John Heil of the Employee Plans, Tax Exempt and Government Entities Division. For further information regarding the data in this notice, please contact the Employee Plans' taxpayer assistance telephone service at 1-877-829-5500 (a toll-free call) between the hours of 8 a.m. and 6:30 p.m. Eastern time Monday through Friday. For information regarding the methodology used at arriving at the data in this notice, please contact Mr. Heil at 1-202-283-9888 (not a toll-free call).

¹ Based on News Release IR-2003-122 dated October 16, 2003.